



DEPARTMENT OF HISTORIC RESOURCES

INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS AS OF APRIL 2019

Auditor of Public Accounts
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April 19, 2019

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INTERNAL CONTROL QUESTIONNAIRE REVIEW RESULTS

We have reviewed the Internal Control Questionnaire, completed on April 2, 2019, for the **Department of Historic Resources (Historic Resources)**. The purpose of this review was to evaluate if the agency has developed adequate internal controls over significant organizational areas and activities and not to express an opinion on the effectiveness of internal controls. Management of Historic Resources is responsible for establishing and maintaining an effective control environment.

The Auditor of Public Accounts has developed a new process for auditing agencies that are not required to have an audit every year, which we refer to as "cycled agencies." Traditionally, we audit these agencies at least once every three years. We now employ a risk-based approach to auditing the cycled agencies. Under this approach, annually we will perform a risk analysis for all of the cycled agencies considering certain criteria and divide the agencies into two pools. One pool will receive an annual audit and the other pool will be subject to review in a special project focused on one area of significance as well as a review of internal controls in the form of a questionnaire. Our intent is that all cycled agencies will complete an internal control questionnaire at least once every three years. This letter is to communicate the results of the Internal Control Questionnaire review.

Review Process

During the review, the agency completes an Internal Control Questionnaire that covers significant organizational areas and activities including payroll and human resources; revenues and expenses; procurement and contract management; capital assets; grants management; debt; and information technology and security. The questionnaire focuses on key controls over these areas and activities.

We review the agency responses and supporting documentation to determine the nature, timing, and extent of additional procedures. The nature, timing, and extent of the procedures selected depend on our judgment in assessing the likelihood that the controls may fail to prevent and/or detect events that could prevent the achievement of the control objectives. The procedures performed target risks or business functions deemed significant and involve reviewing internal policies and procedures. Depending on the results of our initial procedures, we may perform additional procedures including reviewing evidence to ascertain that select transactions are executed in accordance with the policies and procedures and conducting inquiries with management. The “Review Procedures” section below details the procedures performed for Historic Resources. The results of this review will be included within our risk analysis process for the upcoming year in determining which agencies we will audit.

Review Procedures

Due to the implementation of the new statewide accounting system, we reviewed a selection of system and transaction reconciliations in order to gain assurance that the statewide accounting system contains accurate data. The definitive source for internal control in the Commonwealth is the Agency Risk Management and Internal Control Standards (ARMICS) issued by the Department of Accounts (Accounts); therefore, we also included a review of ARMICS. The level of ARMICS review performed was based on judgment and the risk assessment at each agency. At some agencies only inquiry was necessary; while others included an in-depth analysis of the quality of the Stage 1 Agency-Level Internal Control Assessment Guide, or Stage 2 Process or Transaction-Level Control Assessment ARMICS processes. Our review of Historic Resources’ ARMICS program included a review of all current ARMICS documentation and a comparison to statewide guidelines established by Accounts.

We reviewed the Internal Control Questionnaire and supporting documentation detailing policies and procedures. As a result of our review, we performed additional procedures over the following areas: revenues and expenses; grants management; and information technology and security. These procedures included validating the existence of certain transactions; observing controls to determine if the controls are designed and implemented; reviewing transactions for compliance with internal and Commonwealth policies and procedures; and conducting further review over management’s risk assessment process.

As a result of these procedures, we noted areas that require management’s attention. These areas are detailed in the “Review Results” section below.

Review Results

We noted the following areas requiring management’s attention resulting from our review:

- Historic Resources has formal, documented policies and procedures over most of its significant business processes. However, Historic Resources needs to expand these policies and procedures to ensure the following processes are sufficiently documented:
 - Monitoring sub-recipients of federal grant awards to reflect monitoring procedures performed in compliance with the Code of Federal Regulations (2 CFR 200.331).

- Reviewing cancelled records reports from the Commonwealth’s retirement system to ensure a timely review in compliance with topic 50410 of the Commonwealth Accounting Policies and Procedures Manual.
- Information technology processes to include a review of documentation provided by Historic Resources’ information security provider in compliance with the Commonwealth’s Information Security Standard, SEC 501 (Security Standard).

In addition, management performs a review of policies and procedures annually or as needed. However, management does not retain evidence, such as signature and date, of the review and approval of the policies and procedures. Management should ensure detailed policies and procedures exist for all critical business areas and should document review and approval of each.

- We reviewed a grant sub-award agreement that was awarded in fiscal 2018 and noted that Historic Resources did not include all necessary information in the grant sub-award agreement in accordance with 2 CFR 200.331. Historic Resources updated their sub-award template to include these required elements starting in fiscal 2019, but some required elements were only included by reference to other documents. Historic Resources should explicitly include all necessary items in the sub-award agreement for clarity and consistency.
- Historic Resources had not obtained audits of a sensitive information system in accordance with the Security Standard (Section 501.7.2) since the system’s implementation. As these audits provide assurance that the information technology controls are adequate and effective, Historic Resources should obtain these required audits. At the time of our review, Historic Resources had entered into an agreement with the Virginia Information Technologies Agency to obtain these audits going forward.

We discussed these matters with management on May 15, 2019. Management’s response to the findings identified in our review is included in the section titled “Agency Response.” We did not validate management’s response and, accordingly, cannot take a position on whether or not it adequately addresses the issues in this report.

This report is intended for the information and use of management. However, it is a public record and its distribution is not limited.

Sincerely,

Auditor of Public Accounts

JDE/vks



COMMONWEALTH of VIRGINIA

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May 23, 2019

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Dear Ms. Mavredes:

Thank you for allowing the Department of Historic Resources (DHR) the opportunity to respond to your Internal Control Questionnaire Review Results letter dated April 19, 2019. DHR's responses follow your review results in the same order as they appear in your letter.

- To expand policies and procedures that reflect sub-recipient monitoring performed in compliance with 2CFR 200.331, DHR's Finance and Grants Manager will collaborate with DHR's program staff to further develop, clearly document and strengthen the agency's current sub-award risk assessments, reporting requirements and monitoring processes.
- DHR has updated the procedures for the monthly VRS VNAV reconciliation to include process steps to review the cancelled records report timely.
- DHR is in the process of working with its partner, the Virginia Museum of Fine Arts (VMFA), to hire an Information Security Officer (ISO); the staff person hired in this role will be tasked with developing internal policies and procedures over IT security processes to ensure adequate action is taken to address any issues within security documentation provided by the Virginia Information Technologies Agency (VITA).
- DHR has updated the business processes procedure template to include review dates and approvals. In addition DHR is now tracking fiscal year procedure reviews via an Excel spreadsheet including, the review date, updates, the reviewer, the approver and the approval date.

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- DHR is now updating the agency's sub-award agreements to include every required element of 2CFR 200.331 in the actual agreement rather than by reference to other documents.
- As noted in the Auditor of Public Accounts Memorandum, DHR has entered into an agreement with the VITA to obtain an audit of its sensitive information system to ensure that controls are adequate and effective and will continue to do so in the future in a timely fashion.

Sincerely,



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